

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: SMALL VOLUME GAS TRANSPORTATION	DOCKET NO. NOI-98-3
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ORDER REJECTING DRAFT TARIFFS AND CLOSING INQUIRY

(Issued July 18, 2003)

Natural gas transportation service became available in Iowa in approximately 1986 when the Utilities Board (Board) adopted natural gas transportation rules. Although no customer class was excluded from transportation service, a market for small volume transportation customers did not develop. Beginning in 1996, Board staff reviewed each natural gas utility's tariffs for the purpose of identifying the impediments that precluded small volume customers from transporting their own natural gas. This review was the basis for the initiation of a rule making proceeding identified as Docket No. RMU-96-12, In re: Natural Gas Transportation.

On October 23, 1997, the Board issued its "Order Adopting Rules" in Docket No. RMU-96-12. The rules were intended to encourage small volume customer natural gas transportation service. These rules, 199 IAC 19.13(4)"e" and "f," offered the utilities the option of filing tariffs or specific plans to implement transportation service for small volume customers. Each of the utilities elected to file a plan pursuant to paragraph 19.13(4)"f."

On December 28, 1998, the Board issued its "Order Initiating Inquiry" in Docket No. NOI-98-3, In re: Small Volume Gas Transportation. The docket was opened in response to a request by IES Utilities Inc. and Interstate Power Company, n/k/a Interstate Power and Light Company, to establish workshops to address issues associated with small volume gas transportation and to consider adoption of a consistent approach for all Iowa natural gas utilities.

Workshops were held to discuss the issues involved concerning small volume natural gas transportation. The workshop participants produced a matrix of issues, which indicated areas of apparent agreement and areas of disagreement among the participants for each issue. Following the workshops, the Board issued an "Order Scheduling Filing," allowing each of the workshop participants an opportunity to comment concerning the manner in which the small volume gas transportation process should be implemented.

Board staff summarized the parties' comments in a memorandum to the Board dated September 9, 1999. This memo also discussed the advantages and disadvantages of three alternative approaches for proceeding. The three alternatives presented in that memo were: 1) a legislative approach similar to the method attempted for electric restructuring, 2) an intermediate approach, and 3) a tariff filing approach consistent with the requirements in 199 IAC 19.13(4)"e."

On March 3, 2000, the Board issued its "Order Terminating Small Volume Gas Dockets and Discussing Tariff Filing Requirement." In the order, the Board dismissed all of the plans filed by the rate-regulated gas utility companies pursuant to

199 IAC 19.13(4)"f," based upon a finding that the plans did not provide a satisfactory means to open the natural gas market to small volume gas end-users. The Board determined that removal of barriers to competition would best be accomplished by requiring that each public utility file a company-specific tariff.

On August 8, 2000, the Board issued an order directing natural gas utilities to file draft tariffs designed to implement transportation for small volume customers. The draft tariffs were to address the barriers to implementation of transportation of natural gas to small volume end-users. Each of the utilities filed draft tariffs in compliance with this order.

During this same period, the Board adopted rules, 199 IAC 19.14, to comply with Iowa Code §§ 476.86 and 476.87, which provide for certification of competitive natural gas providers (CNGPs) in Iowa. The Board also amended 199 IAC 19.13(6) to require that only large volume transportation customers, as defined in 199 IAC 19.14(1), must be given notice of the risks of transportation of gas. Small volume transportation customers would be allowed to return to system supply in the event their supplier failed to deliver contracted gas.

Currently, the gas utilities, except for Aquila, Inc., d/b/a Aquila Networks, provide small volume gas transportation service to public and private schools through special tariffs, and the terms and conditions of those special tariffs are not uniform. The special tariffs do not apply to all small volume customers and the costs of transporting natural gas for most small volume customers is still prohibitive.

While the Board has been considering how best to implement natural gas transportation service for small customers, many changes have occurred in the natural gas industry. The natural gas industry and markets were rocked by the collapse of Enron and many gas marketers have exited the business. New service alternatives are being offered; for example, Interstate Power and Light Company is preparing to offer a guaranteed bill program. All of the Iowa investor-owned natural gas utilities are hedging the price risk of natural gas and two gas utilities are hedging volumetric risk. There have been unprecedented winter price spikes with month-ahead prices in the \$9-11 per dekatherm range and spot prices at nearly \$20 per dekatherm. Small volume gas transportation programs have had difficulties in other states that have implemented the programs. Further, without the adoption of the electric restructuring legislation, the economic benefit of transportation is less certain for many small volume customers.

It appears that the large volume customers interested in receiving transportation service are receiving it already and there is no major public effort to promote the implementation of the small volume transportation program. In fact, a recent publication by The National Regulatory Research Institute, Survey on the Features and Regulatory Oversight of Gas Choice Programs, notes that a common problem experienced in all natural gas choice programs nationwide is a lack of interest by customers and marketers. Balancing the significant implementation issues with the apparent limited interest in small volume transportation programs, the Board finds that further consideration at this time of a small volume gas

transportation program would not be beneficial. The Board's limited resources can best be utilized on other projects that have greater public interest and that are likely to provide more benefit to the gas utilities and the public in a more timely manner, given current conditions.

For these reasons, the Board finds that this docket should be terminated and the small volume draft tariffs filed by the utilities should be rejected. However, the Board finds that there are several amendments to the Board's rules that need to be considered to complete the termination of this project. These amendments to be proposed by the Board are described below, although they will be the subject of a separate rule making proceeding.

1. The Board will propose to rescind paragraph 19.13(4)"e."

Paragraph "e" sets out tariff parameters for small volume transportation service. The current language states that each utility shall file transportation tariffs on February 1, 1999, reflecting those specific requirements. The provisions of this rule are no longer required, since the gas utilities have transportation tariffs that apply to all customers, including small volume customers.

2. The Board will propose to rescind paragraph 19.13(4)"f."

Paragraph "f" allows gas utilities the option of filing a plan, rather than tariffs. The Board has dismissed these plans and it appears this paragraph should, therefore, be rescinded.

3. The Board will propose an amendment to subrule 199 IAC 19.13(6). The subrule was amended to limit to large volume customers the requirement that utilities notify transportation customers of the risk of not being able to return to system supply and that the utility is not obligated to supply natural gas to the customer without the purchase of back-up service from the utility. The Board will propose to amend this rule to explicitly state that the utility shall allow small volume customers, as defined in subrule 19.14(1), to return to system supply.

4. The Board will propose an amendment to 199 IAC 19.14(5)"d." Under this paragraph, CNGPs serving small volume customers are required to provide monthly reports to the Board indicating the rates charged for each customer class. This provision anticipated widespread participation in small volume transportation programs. The Board finds that this reporting requirement should be eliminated. The information is of limited use and would be available by other means if an individual situation arises where the information is needed.

Finally, the Board will require that all natural gas utilities comply with paragraph 199 IAC 19.14(6)"g." Paragraph "g" requires each individual rate-regulated public utility to file tariffs for the Board's review establishing the replacement cost of natural gas in the event of a supply failure. It was anticipated that this requirement would be addressed with the implementation of the small

volume transportation draft tariffs. Not all utilities have filed tariffs addressing replacement costs and they will be required to do so.

IT IS THEREFORE ORDERED:

1. The draft tariffs filed by the utilities to implement small volume gas transportation service are rejected.
2. Docket No. NOI-98-3 is closed.
3. All rate regulated natural gas utilities shall file proposed tariffs in compliance with 199 IAC 19.14(6)"g" on or before September 15, 2003.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 18th day of July, 2003.